



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

AUG 17 2004

The Honorable Christopher J. Dodd  
United States Senate  
Washington, DC 20510

Dear Senator Dodd:

This is in reply to your recent inquiry regarding the U.S. Army Corps of Engineers (USACE) pilot program to provide the workers' compensation insurance for overseas contractor employees required by the Defense Base Act (DBA). We have encouraged USACE to pursue this pilot program because we received complaints last year from companies doing business in Iraq (and from the Professional Services Association) that: (1) the rates for this mandatory insurance increased significantly from \$4 to over \$20 per \$100 of labor costs, and (2) in some cases, they could not get DBA insurance at all. This difficult DBA insurance market hit small businesses particularly hard because there is often a minimum premium of \$15,000 to \$25,000, regardless of how few contractor employees are overseas or how short a time period they will be there.

The USACE pilot program we envision is based on two similar, successful programs at the U.S. Agency for International Development (USAID) and the Department of State (DoS). USAID has been awarding its competitive requirements contracts for DBA insurance since the late 1970s, while the DoS program began in 1992 – with regular competitions for these contracts every five years. The DBA insurance rates under both the USAID and DoS programs have been very reasonable, with no minimum premium requirements. This approach appears to be the best option for USACE to explore at this time.

As with the DBA programs at USAID and DoS, the USACE pilot program contract will be competed. After award, all requirements for DBA insurance on USACE contracts world-wide will be placed with the winning contractor for an initial period of two years. This is no different from what DoD does on other competitive requirements-type contracts. If the USACE pilot program proves successful, it will be periodically recompeted. We also want to emphasize that this is not a DoD-wide program; it will be limited to the DBA insurance requirements of USACE contractors only.

USACE plans to issue a draft Request For Proposals (RFP) for its DBA insurance pilot program and then to carefully consider any industry comments before issuing a final RFP. If the proposals submitted for the pilot program are not advantageous to the

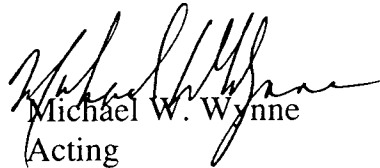


Government based on a best value comparison with open market DBA rates and availability, USACE will not award a contract. However, in view of the longstanding, successful programs at USAID and DoS, we expect the USACE pilot program will also prove successful.

Historically, the Department of Labor (DoL) has encountered no significant problems in carrying out its administrative responsibilities under the DBA on the USAID and DoS programs. We have discussed the USACE pilot program with DoL, and it has expressed no objections to this initiative. Of course, any contract under the USACE pilot program will only be awarded to an insurance company that is duly authorized by DoL to provide this type of mandatory insurance. In addition, corporate capability and experience in providing DBA insurance will be important evaluation criteria for contract award.

I hope that you find this information helpful. My point of contact for this matter is Mr. Christopher Werner. He can be reached at (703)695-9764 or at christopher.werner@osd.mil.

Sincerely,

  
Michael W. Wynne  
Acting